DOW THEORY LETTERS INC.

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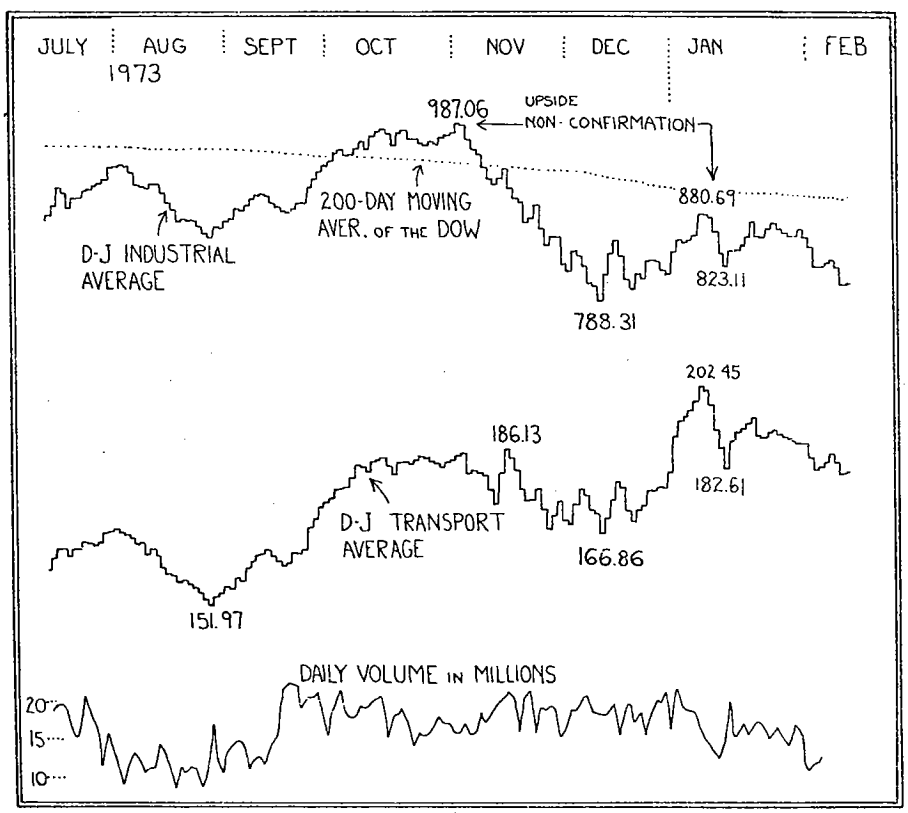
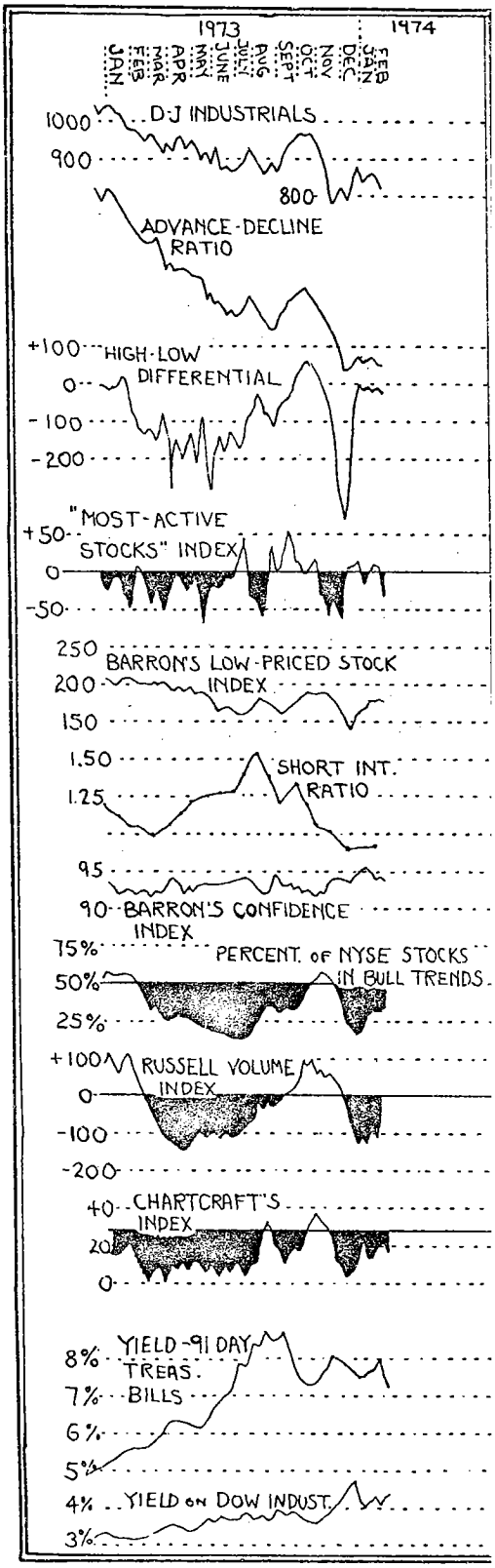
Feb. 1, DJIA 843.94; PTI 616; A-D ratio -18.53
Feb. 8, DJIA 820.40; PTI 604; A-D ratio -19.17

THE MARKET: Many hundreds of new subscribers have come in over the past few months, and I might as well state where I am for their sake. I am bullish on gold shares and I'm bearish on the rest of the stock market. I believe you should be out of all common stocks except golds, and if you haven't moved by now — all I can say is "better late than never." In New York last week an old school friend grabbed me and confided that he had terrific losses in his common stocks. "Do you really mean," he gasped, "that I should sell out, take a huge loss, and buy gold shares ... even at these prices?" I gave him my best answer. It was all compressed into a single word, "Yes."

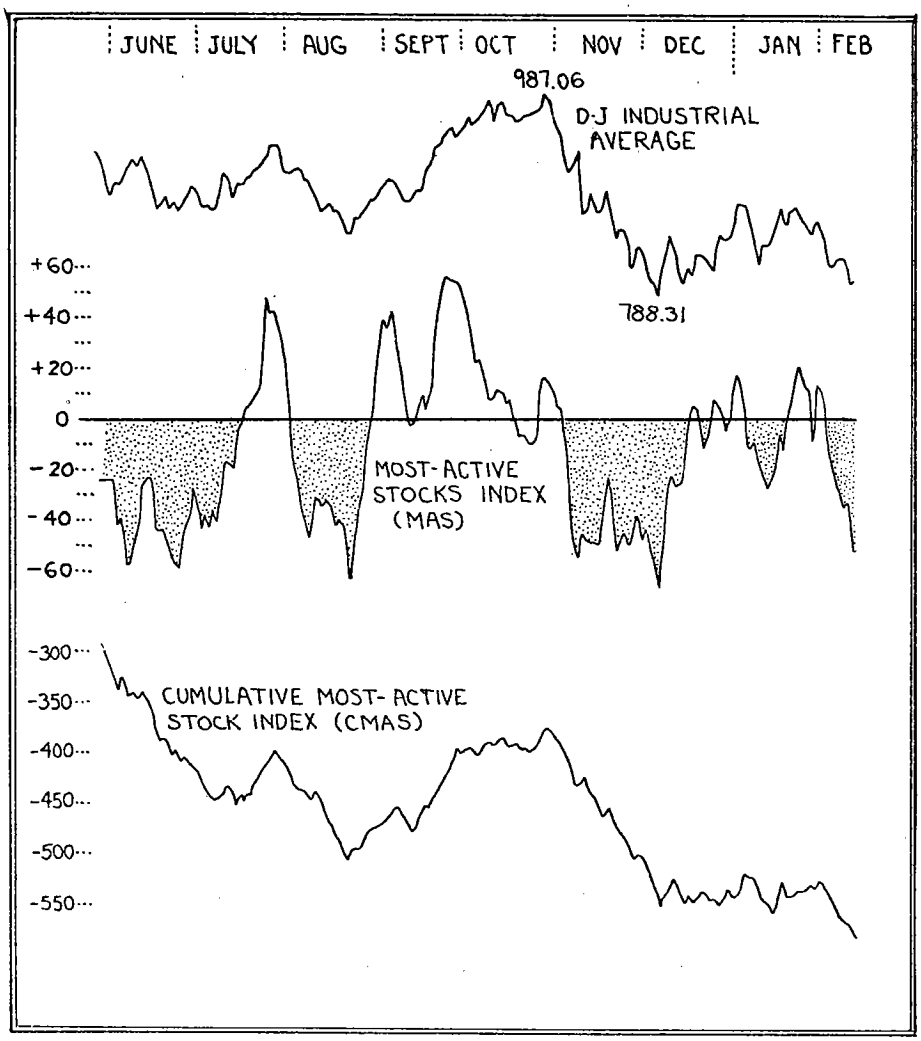
In the last few Letters I augmented my long-term bearishness with a sprinkling of near-term bearishness. According to Dow's Theory a movement of one Average, unconfirmed by the other, is meaningless for predictive purposes and more often than not deceptive. If you will gaze at the chart of the Averages below you will note that the Industrials refused (on the December-January rally) to confirm the Transports (Industrials would not better their preceding peak of 987.06). Thus, the danger signals were flying, and I said so at the time.

In the last Letter I also included my rather ominous chart of the Primary Trend Index (PTI), which is an amalgam of eight critical indicators all joined into a single index (figures are given in each Letter at the top of page 1). On February 4 the PTI broke to a new bear market low. A little rally followed, but on Monday (Feb. 11) the PTI plunged to another bear market low. The Averages, unable to withstand this horrendous technical deterioration, followed the PTI down. Industrials started the week with a 16 point drop.





I want to discuss two other important indicators now. They are the ones based on the daily "most-active stocks" listings. Each day I compute the plurality of the 15 most active stocks on the NYSE. These pluralities are arranged in the form of an oscillator and also in the form of an advance-decline line. When read correctly, the 8-day moving average of the most active stocks (the oscillator) and the advance-decline line or the cumulative index are most helpful in forecasting the future of the market.



On this page I show my chart of the 8-day average (MAS) of the most-active pluralities and the cumulative index (CMAS) of the most-actives. Remember, the 15 most active stocks on the NYSE often comprise 15% to 30% of total daily volume, and the direction of these two indices tends to precede the general market direction.

Study this chart carefully. Except for a short rise in July, 1973, and a fairly good rise in September-October of that year, the MAS has put on an unimpressive performance. On January 24 the MAS rose to a sub-standard plus 21, then turned down. On February 4 the MAS dropped back into the minus (shaded) column as selling pressure in the volume leaders took over again. On Feb. 11 MAS touched a bearish minus 52.

The CMAS provides a continuing profile of the most-active stock picture. It allows for comparisons at different levels, and the comparisons are now anything but pleasant. On February 6 the CMAS broke to a new low for the entire bear market. This means that on a cumulative basis, the most-active pluralities on February 6 were at their greatest (most bearish) since the beginning of the bear market in 1966. In no way can this situation be construed as anything but bearish. On Monday (Feb. 11) the Dow and the market broke with a vengeance, with the Dow down by 16 points. On that day the CMAS broke to a fresh new low.

* * * *

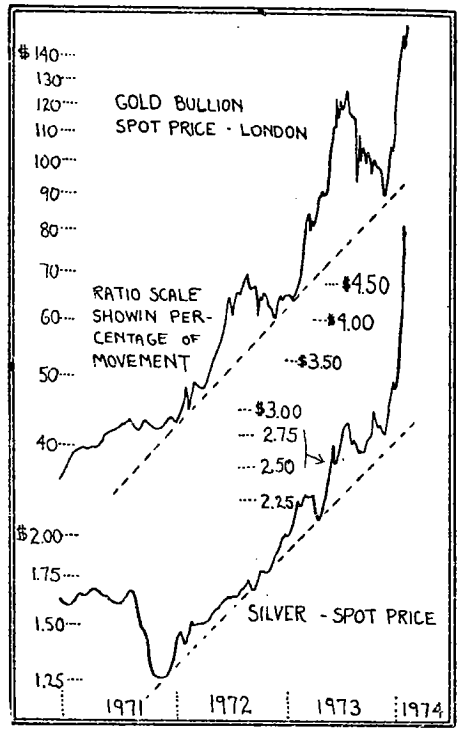
The points on the Averages which should now be watched are the December, 1973, lows of 788.31 (Industrials) and 166.86 (Transports). If those are broken we have the 1973 Transport low of 151.97. Breaking 788.32 and 151.97, the Averages would almost surely plunge in a panic-decline to test the 1970 lows (Industrials 631.16).

Many subscribers are taking the recent low volume as a "bullish sign" or an indication that the liquidation pressure is ebbing. I don't subscribe to this thesis. Volume can be extremely deceptive during a primary bear market such as this one. Right now I feel that many investors are trying to exit quietly through the rear doors — without tearing the doors off their hinges and without attracting alot of attention. Sooner or later the exits are going to get crowded, however, and then the doors are going to go, the hinges are going to get ripped off, and the walls themselves are going to give. It's not going to be a pretty sight, but then "I never promised anyone a rose garden" on Wall Street during 1974.

GOLD, MONEY, THOUGHTS: Suddenly, everyone is an expert on gold price movements. Suddenly, all the advisors are specialists in Elliott Waves and five-leg movements and extensions and corrections. From all quarters come the soothsayer's warnings that the gold stocks are about to fall apart. I'm almost sorry I started the recent comments on Elliott. Too many cooks spoil the soup, and the gold soup is thick with nonsense, misquotes, half-truths and quackery. Actually, Elliott is very difficult (and often quite unreliable) when applied to individual stocks. Elliott is most useful when applied to an average, less useful when applied to a stock group, even less useful when applied to an individual stock and least useful when everyone is applying it AS IS THE CASE NOW!

I will repeat again for new subscribers — buy your gold shares and hold them. Do not trade them, do not switch Homestake for ASA, do not switch one Campbell for two Vaal Reefs. If you do you'll be helping to support your broker (which I don't object to),

but it would be better to let him make his way through life without depending on your account alone. Take a diversified position, brace yourself for all kinds of wild rides both up and down, and simply hang on. This is a bull market in golds, and it's not over yet. Before it's over, golds will be much higher — much.



Ever since I first put my subscribers into gold (around 1966) I have attempted to present the picture as one of tidal scope, a primary force. The gold move is part of a sweep which is so strong, so irresistable that to try to pin it down to the events of June, 1971, August, 1972, or February, 1974, is totally absurd. It is a tide in the affairs of men, and that tide will not run out until it is exhausted, until the gold hurricane has blown itself out, until the last breath of energy in the whole gold fever has subsided.

Newspapers and magazines live on news and new readers and stimulation and human interest. They have to publish "stories" every day and week. The gold tide isn't today's story or 1974's story. It is the tragic, hurricane-force saga which has grown out of decades of inflation, monetary ignorance and political greed. It's a story which has been repeated often, but it seems incredible each time it is played ("Can today's wonderful electronic world be compared to the crumbling Roman Empire?").

Thus, when I publish this gold and silver chart there are those (actually the vast majority of analysts) who warn that this is dangerous speculation, a temporary, insane bubble, a dangerous mistake which should be avoided. They are wrong. They have been wrong for five years, and they are wrong today. The movement of the gold and silver metals is the totally logical, predictable result of monetary destruction. The two lines you see on this chart represent the declining value of the dollar against real money — gold (and, so far, silver).

How high will gold go — or silver? Ask how low the dollar will go. For that is the real question, and of course you must also ask how low the other currencies of the world will go. My own experience tells me that primary movements (and I have been writing about this for years) run until the best (or worst) that can be seen ahead is fully discounted in the price structure. Usually they over-run themselves, and this brings on the speculative phase. The speculative phase very often takes a stock or a commodity far higher (or lower) than seems possible to the average person. And this is, I am afraid, what I foresee for gold.

Inflation has been the underlying force in this nation (and the world) since World War II. It has now sent billions of pieces of paper scurrying about looking for real value to hang on to. That real value is the precious metals. Those who believe that the precious metals move is manipulated, contrived or an aberration simply do not understand the way money and precious metals work. The cynics are about to get their "Baptism of Fire." This kind of move may not come again in another 100 years, but it is here now. Watch it, tell your grandchildren about it, wring your hands as you behold it — or tie your fortunes to it (as I have implored you to do). Because it is the bull tide, and the only one around.

Readers of these reports are having their best investment year in a long time as this rising market in golds enters its explosive stage. I don't know of another way to survive the gathering storm. We have held on, gritted our teeth, shivered in the face of the vicious anti-gold propaganda, but survived. And that's better than much of Wall Street is doing today! Sometimes merely surviving is doing God's work. And if we survive with gold shares while paper goes down, then there may be a purpose in it larger than what we mere mortals understand. The extraordinary tale is unfolding, and I again implore all of my readers to stay with your golds.

Right now 99% of America does not know a thing about gold. But the tide is large, and it is coming in spurred on by the furies of ignorance and inflation. When the tide gets high and wild we will sell into it. That time has not yet arrived, and I advocate positions of 50% to 75% in gold shares now, up from before (although many of you are now 100% in golds). Each situation is different, and I can offer no overall formula. But I have told you the story in Letter after Letter, and you know what I expect. And that's about all I can say here.

* * * *

My friends at the Bank Credit Analyst (1245 Sherbrooke St., W., Montreal, Can. 109) have come out with their February report, and Editor Donald Storey has (as he often does) produced some of the most brilliant writing on gold obtainable anywhere. Storey is one of those utter rarities who understands the Federal Reserve System, money, economics, gold and the market. I don't think there are a dozen like him in the Free World.

Here are a few of Storey's February observations. (1) The nations of the West have now vastly increased their money supplies, and they are now powerless to stop the massive flows of money from one haven to the next. (2) If and when recession and unemployment hit the West, competitive exchange devaluations will be intensified. (3) The French floating of the franc means that it's now every man for himself; it confirms that floating is here to stay; all currencies must now seek their own level against each other and against gold.

(4) The SDR's are dead; the meeting of the Rome Group of 20 signed the death warrant. (5) With the Rome non-action and the franc float, monetary reform is now a dead issue. (6) We are entering a new round of competitive devaluation which will push the European and Japan currencies down further against the dollar. (7) We now face the specter of world depression plus hyper-inflation. (8) The requirement to get the price of gold up is imperative, and no nation now has any vested interest in a lower gold price. (9) The existing monetary system cannot cope with the mass deficits due to emerge as the Arab oil bills are presented. Gold must be put at $200 to $300 per ounce if the West is to weather the next few years with anything resembling stability. (10) Gold will continue to be under tremendous upward pressure as the US and many other nations inflate in order to attempt to avoid recession. (11) It is virtually certain the monetary authorities would reflate in the face of a depression, and one of the methods of reflation is a very large increase in the price of gold.

NEW YORK: I flew to NYC last week, stayed at the St. Moritz Hotel, and delivered a speech at the sell-out James Dines Monetary-Gold Seminar. Following: a few impressions. The Seminar was excellent. The speakers highly informed, many brilliant, and I learned much. As in New Orleans, the speakers were mostly analysts and industry experts. I feel that Dines and I were the only "market men." What is a market man? He's a man who knows (above all) the psychology of markets. He's a man who says, "Don't tell me what to buy, tell me when to buy it." I talked about "when." So did Dines. The real drama in the market is in how it works, and when it's going to work. "Why" is often interesting, but the fortunes are made knowing how and when.

I don't want to review the events of the conference here, because I didn't hear anything which basically changed my opinions of coming events (my own speech may have conceivably changed some of the thinking of the attendees, however). Jim Dines and I are in basic agreement. Dines and George Schaefer and I are probably the only three advisors in the nation who have said, "Buy golds heavily (we have been saying this for years), don't trade golds, buy more golds on corrections." Dines and I agree that the world is in deep trouble, and if anything, Dines is more pessimistic than I am. Jim sees potential for all kinds of Governmental confiscatory actions (and he may be right, but I can't get fired up yet about this possibility).

saw many old friends, high school buddies, John McFalls, James (himself) Dines, Eliot Janeway (who scared me to death with a wild ride through ice-laden NYC streets), Peter Gimbel, my sister Kate, many, many subscribers (who all look happy, so far).

What fascinated me tremendously was my feelings about NYC itself (I haven't been back there in nine years). NYC (New Yorkers, it's not your fault so don't be angry with me) is a quivering corpse. It's a King Cobra with a hustler for its partner. Early Saturday morning (6 AM) I walked out into the snowy street (NYC had its biggest snow storm as I got there), and headed east on 59th St. No place for breakfast. Everything shut. No newspapers, nothing. I walk down Fifth Ave. Fifth is still majestic. Looks the same, but lacks the sparkle of the 1950's, everything is dirty, sooty, frozen. Traffic is greatly reduced in NYC now, much more so than California — the gas shortage hits hard here.

Taxi drivers line up in front of the hotels. They're morose, unhappy, cold. Notice thick transparent plastic wall between driver and passenger — to prevent holdups or murders. Walk through lobby of the fabled Plaza Hotel. Place is run down, almost seedy. Plaza's Tulip Room menu shows outrageous prices; breakfast of two eggs, toast is $4.25, coffee is $1. Famous Trader Vic's charges $2.95 for lettuce salad. But other hash houses on side streets are cheaper. Sun is coming out now. Stop at my old favorite, Saks Fifth, to buy rubber boots. My feet are soaked. Oxfordian looking blacks are part of the salesforce at Saks. Otherwise Saks uniquely unchanged, a fortress of good taste.

Head down to 42nd St. Try to call Bob Bleiberg, Editor of Barron's (on a sudden whim). Saturday, no one answers at Barron's. Feel a warm spot for Bob on that cold day (he was one of the men who got me started in the advisory business). Head across 42nd to Times Square. Notice dozens of shops selling hundreds of little calculators. Electronic explosion! Windows are crawling with little calculators. Nearing Times Square and the sex shops and movies take over. One dingy theatre advertises first black porno film, price $5. Imagine, a world porno preview for $5. This is NYC.

Up Broadway. Stores covered with posters of the late, beautiful Bruce Lee, Kung Fu genius. I stop and buy two posters. The city is waking up, old men stagger by, frayed gloves, dazed looks, tortured eyes. I wonder what keeps them here? I'd rather die in Florida. Jack Dempsey's restaurant still stands, a NY landmark. I get to 59th St. and head east again. NYC, the city a thousand "Deli's," the city of the walking dead, of frowning men, an entire population on the cross. The melting pot that's frozen. Do I still love it the way I used to? Yes, in a way, but I love NYC the way you love a buddy who has fallen in combat. He may make it, but he's tired, fallen, bleeding. Good-bye, city of my childhood and youth. I'm tired of the ashes and the dirt and the cold. I lived in your guts long enough, and you lived in mine. I gave you half my life. I want the other half.

VALUES IN GOLDS: I have been wracking my brains trying to figure a way to present a number of interesting golds on a comparative value basis. There is no perfect system, but there is a reasonable system and that is by proven gold reserves per share. For the following figures, I am indebted to two outstanding outfits, Indicator Digest, Palisades Park, NJ 07650, a leader in the whole gold-investment picture, and my friend Iain Fraser, Publisher of Indicator Research, 365 Bay St. Toronto, Ontario, Canada. In their February 1st issue Indicator put out a very interesting rundown on leading S. African shares, containing many valuable statistics. I am only including a single column and that is gold reserves per share, and I am only using outstanding selections from this list.

Indicator Research also published a much more comprehensive list of tabulations, and here I have only included selections which appear outstanding on a reserves per share basis. Many Canadian mines have very low-quality ore reserves, and where the quality appears too low to mine (below .12 ounces of gold per ton) even at $150 gold, I have left these issues out. Indicator Research writes that for $8 my subscribers can have the whole Canadian statistical list plus a trial to their service. My compliments and thanks to both of these fine services.

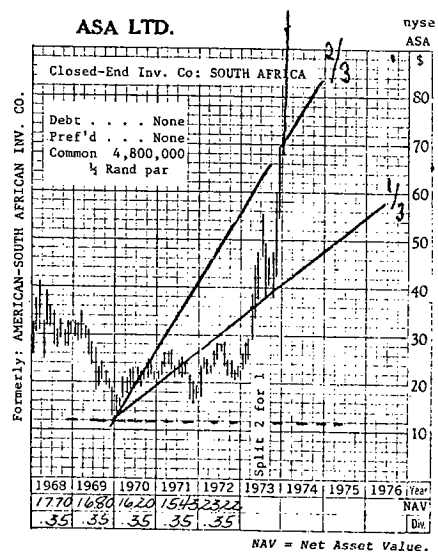
S. African Mines	Proven Gold Reserves per Share at $135 gold	Approx. market price per share
Blyvoors	$24.53	$13.00
Free State Geduld	$67.23	$33.00
Harmony	$30.78	$18.00
St. Helena	$74.50	$33.00
Stilfontein	$17.00	$10.00
Welkom	$23.06	$10.00
Western Holdings	$101.25	$50.00

Canadian Mines	Same as above but at $140 gold	Approx. market price per share
Assoc. Porcupine (T)	$7.00	$1.75
Chibex (M)	$6.00	$2.60
Cons. Prof. Mines (over counter)	$8.00	$1.35
Dumagami Mines (M)	$11.00	$1.00
East Malartic (T)	$15.00	$8.00
Goldex (M)	$13.00	$4.50

Warning, all the above Canadian are non-producing mines with the exception of East Malartic, which is the best of the lot. Many high-grade mines have been left off the list because they are not priced at "bargain levels" below their ore reserves per share. Letters in parenthesis indicate Montreal, or Toronto Exchanges. I have only shown mines where ore quality is better than .12 per ton. However, if gold ever goes wild, say to $300 per oz. or more, some very low-grade ore outfits such as Hydra Exploration or New Athona Mines might be top speculations. In general, all the Canadian mines listed above should be treated as real speculation, to be bought only with spare cash, put away, and treated as a hedge against rampant inflation and sky-high gold.

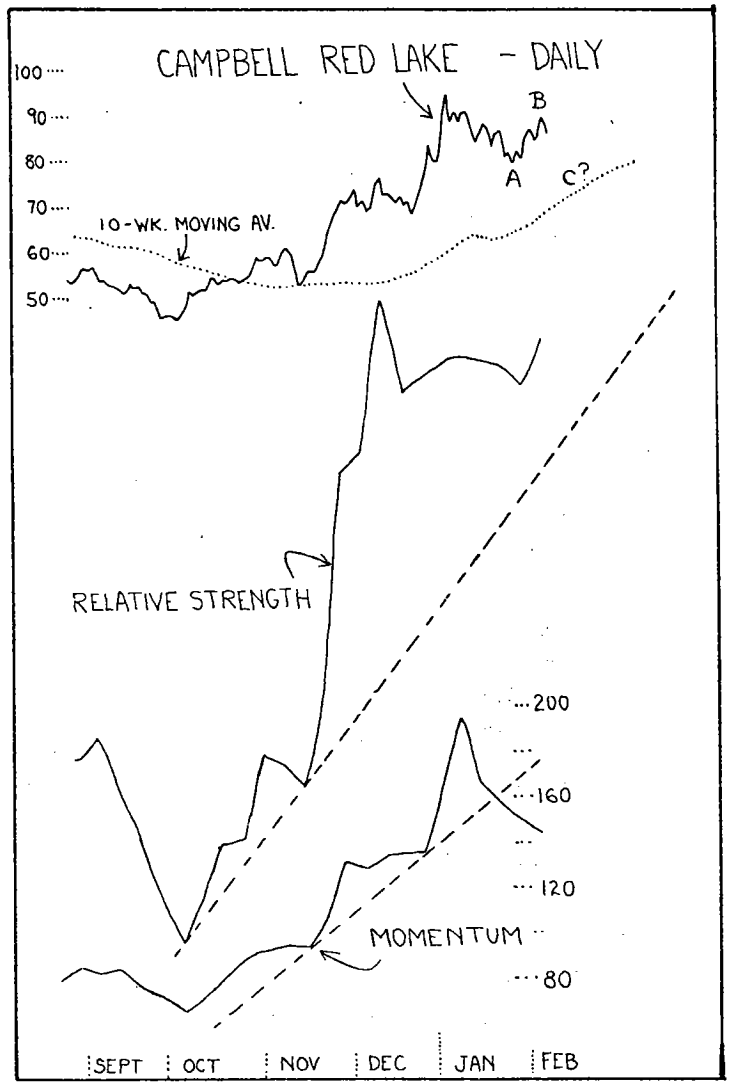
STOCKS: I show here an arithmetic monthly chart of ASA (chart courtesy of Horsey, Salisbury, MD 21801). I have followed a method used by Edson Gould in determining the possibilities for corrective action here. First I drew a dashed line extending horizontally from the 1969 base. Then from the recent 99½ peak in ASA, a theoretical line is drawn directly down until it meets the dashed line base. This theoretical line is then divided into thirds. Two ascending trendlines are then drawn, the first from the base through the 1/3 level of the vertical line and the second through the 2/3 level of the vertical line (remember, the vertical line extends from the 99½ peak down to the base).

Edson Gould calls these the speed resistance lines, and I have found them very helpful in determining the future of a movement. Note that the 2/3 S-R line comes in at about 70 for ASA. If ASA can correct and hold above the 2/3 S-R line, I would consider this to be extremely bullish, and suggestive of major new highs. If the 2/3 S-R line is broken, then the suggestion is that ASA could come down and test the 1/3 S-R line. If the 1/3 S-R line is penetrated, the movement could come down and touch the base again.



NAV = Net Asset Value.

Incidentally, in his latest report (Anametrics, 299 Park Ave., NYC 10017) Gould shows that the Dow Industrial Average has now penetrated its 1/3 S-R line, a line drawn from the 1970 bear market low! This implies, under Gould's studies, that the Dow will come down and test the 1970 low of 631.16 over the coming months (the 2/3 S-R line was penetrated by the Dow during April and May of 1973).

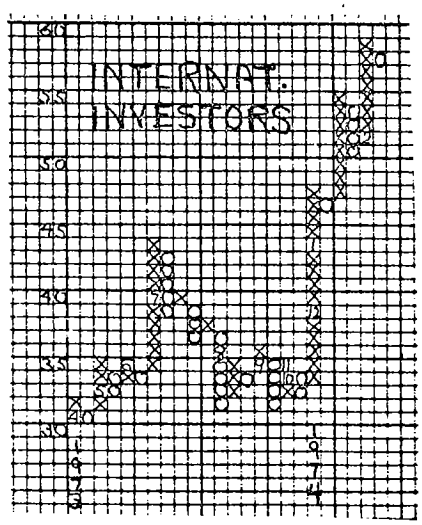


Campbell Red Lake (CRK), the leading Canadian gold producer, is fairly typical of the gold shares. I am including my daily chart of CRK. Note that CRK (since October) has shown explosive relative strength (this is the stock's price as compared with the market). The relative strength line was straight up into December, and is now moving sideways or down — correcting.

Momentum is the price action of a stock as compared with its own price a period back — I use 13 weeks ago. From October to January CRK's momentum headed up on a trend basis, almost touching the 200 level (a most extraordinary show of strength, but a feat which cannot be sustained). In mid-January the momentum line broke down on a trend basis, and the correction in the golds was on.

On the price movement I show an A-B-C with C not yet reached. This is the formation I expect most of the golds to trace out as the correction continues. The 10-week moving average on CRK is in a definite rising (bullish) trend, and it now stands at about 70. If CRK drops to touch the C point as drawn on the chart, CRK could get down to around 70 in the next few weeks or even the next month or so. At that time the relative strength would have corrected and the momentum line might drop back to say 100 or so.

Remember, every bull movement in history, whether minor, intermediate or major, is ultimately corrected. The more corrections, the more sustained the movement. These corrections shake the public and the late-comers out, and they keep the bull market healthy. If the golds were to rally daily for a period of three or four months without corrections, every citizen in the nation would be in gold shares — and the bull market would be over. Therefore, don't be angry with corrections, they're like "escape valves," they keep the boiler from blowing up!



FUND: International Investors is a mutual fund which has around 90% of its assets in assorted gold shares. The fund, which I have often recommended, was the number one performer of all funds last year. It's an open-end fund, which means that you buy shares from the fund itself, and when you sell the fund itself redeems your shares. There is a loading charge which starts at 8% for less than $25,000, 7% for $25 grand but under $50, 5% for $50 thousand but under $100 and 4% for $100 but under $250 thousand. At the 4% level, you can hardly beat the fund by buying and selling gold shares on your own. In other words, I think this is a top vehicle for getting into the gold picture, and the bigger the investment, the lower and more attractive the load charge.

I first bought Int. Inv. when it was around $20 asked, a few years ago. It has since split 3 for one and the split shares got as high as $19.70 or almost $60 on the old shares. I have found charting this fund a most excellent way of following the gold price movement. I like the fund for purposes of tracking the total gold picture better than I like the various gold averages. At any rate, I show here a point and figure chart of Int. Inv. on the basis of the old stock. This chart is a 1-point reversal chart showing all changes of one point more (X's are rallies, O's denote declines). To keep up this chart, simply multiply each day's bid brice for the fund by 3. This will give you an excellent picture of what the gold market is doing.

Note that since late-1973 this fund has moved up from its double-bottom at 32 to its February high of 59. Now I'd call that moving for a fund, and we may get some correction here. If so, the fund is a buy for those who need a larger gold position.